

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Otsego District Public Library	County Kalamazoo
Fiscal Year End December 31, 2007	Opinion Date April 17, 2008	Date Audit Report Submitted to State May 9, 2008	

We affirm that:

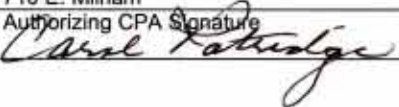
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|-------------------------------------|-------------------------------------|---|
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			Telephone Number 269-329-7007	
Street Address 710 E. Milham		City Kalamazoo	State MI	Zip 49002
Authorizing CPA Signature 		Printed Name Carol A. Patridge, CPA		License Number 1101019740

**Otsego District Public Library
Otsego, Michigan**

**Annual Financial Statements
and
Auditors' Report**

December 31, 2007

Table of Contents

<u>Section</u>		<u>Page</u>
1	Members of the Library Board and Administration	1 – 1
2	Independent Auditors' Report	2 – 1
3	Management's Discussion and Analysis	3 – 1
4	Basic Financial Statements	
	Government-wide Financial Statements	
	Statement of Net Assets	4 – 1
	Statement of Activities	4 – 3
	Governmental Fund Financial Statements	
	Balance Sheet	4 – 4
	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	4 – 5
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 – 6
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 – 8
	Notes to Financial Statements	4 – 9
5	Required Supplemental Information	
	Budgetary Comparison Schedule – General Fund	5 – 1

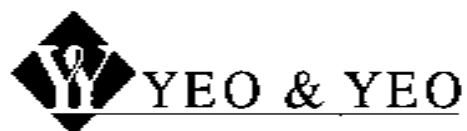
**Otsego District Public Library
Otsego, Michigan
Members of the Library Board and Administration
December 31, 2007**

MEMBERS OF THE LIBRARY BOARD

John Chapman	President
Renny Ransbottom	Vice President
Diana Gilmer	Treasurer
Nancy Seibert	Secretary
Jacqueline Bennett	Trustee
Sharon Tans	Trustee

ADMINISTRATION

Ryan Wieber	Librarian
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Kalamazoo, MI 49002
Phone (269) 329-7007 / (800) 375-3968
Fax (269) 329-0626

Independent Auditors' Report

Members of the Library Board
Otsego District Public Library
Otsego, Michigan

We have audited the accompanying financial statements of governmental activities and each major fund of Otsego District Public Library as of and for the year ended December 31, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Otsego District Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Otsego District Public Library as of December 31, 2007 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The required supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements but supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Otsego District Public Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Yeo & Yeo, P.C.

Kalamazoo, Michigan

April 17, 2008

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2007

This section of the Otsego District Public Library annual financial report presents our discussion and analysis of the Library's financial performance during the year ended December 31, 2007. Please read it in conjunction with the Library's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds – the General Fund and the Capital Projects Funds. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for General Fund

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2007

Reporting the Library as a Whole – Government-wide Financial Statements

The statement of net assets and the statement of activities, which appear first in the Library's financial statements, report information about the Library as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets includes all of the Library's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

These two statements report the Library's net assets and how they have changed. Net assets – the difference between assets and liabilities, as reported in the statement of net assets – is one way to measure the Library's financial health, or position. Over time, increases or decreases in the Library's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the Library's goal is to provide services to our patrons, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided to assess the overall health of the Library.

The statement of net assets and statement of activities report the governmental activities for the Library, which encompass all of the Library's services. Property taxes, unrestricted State aid, and penal fines finance most of these activities.

Reporting the Library's Funds – Fund Financial Statements

The Library's fund financial statements provide detailed information about the Library's funds – not the Library as a whole. Some funds are required to be established by State law. The Library establishes funds to help it control and manage money for particular purposes and to show that it's meeting its legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Library use the following accounting approach:

Governmental funds – All of the Library's services are reported in Governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Library and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2007

The Library as a Whole

Recall that the statement of net assets provides the perspective of the Library as a whole. Table 1 provides a summary of the Library's net assets as of December 31, 2007 and 2006.

TABLE 1

Governmental Activities

	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 4,883,405	\$ 1,084,225
Property and equipment, net	<u>785,280</u>	<u>726,900</u>
Total assets	<u>5,668,685</u>	<u>1,811,215</u>
Liabilities		
Current liabilities	\$ 232,696	134,243
Long-term liabilities	<u>3,580,000</u>	<u>-</u>
Total liabilities	<u>3,812,696</u>	<u>134,243</u>
Net Assets		
Invested in property and equipment – net	(2,873,331)	726,990
Restricted	4,368,222	226,712
Unrestricted	<u>361,098</u>	<u>723,270</u>
Total net assets	\$ <u>1,855,989</u>	\$ <u>1,676,972</u>

The above analysis focuses on the net assets.

The results of this year's operations for the Library as a whole are reported in the statement of activities (see Table 2), which shows the sources of revenue for the year 2007 and 2006.

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2007

TABLE 2

Governmental Activities

	<u>2007</u>	<u>2006</u>
Revenue		
Property taxes	\$ 376,416	\$ 356,287
State aid	10,763	9,835
Penal Fines	65,836	77,115
Other revenue	<u>186,540</u>	<u>66,097</u>
Total Revenue	639,555	509,334
Functions/Program Expenses		
Library services	<u>460,538</u>	<u>406,513</u>
Excess of revenues over expenditures	\$ <u><u>179,017</u></u>	\$ <u><u>102,821</u></u>

Property taxes for operations and penal fines constitute the vast majority of Library's operating revenue sources. The Library Board and librarian must annually evaluate the needs of the Library and balance those needs with other available unrestricted resources.

The Library as a Whole

The Library's net assets increased \$179,017 in 2007. The main reasons for the increase were due to an increase in interest on investments revenue and to the continued growth of the Library's property tax base.

The Library's primary source of revenue is from property taxes, which represents 59% of total revenue. 2007 property tax revenue increased by 5.6% compared to 2006. Penal fine revenue was down for the year, however it still exceeded budgeted expectations by 9.7% and state aid revenues increased by 8.6%. Interest on investments was \$67,448, 275% higher than expected, and contributions and donations (cash and pledges) for the year totaled \$95,357.

The Library held a special election on August 7, 2007 where voters positively decided on a bond issue in the amount of \$3,630,000 to pay for a new library facility. Bond proceeds were received in October 2007, and part of the 275% increase in interest in investments mentioned above was due to interest earned on bond proceeds.

Salaries and fringes continue to be a significant expense, representing 45% of the Library's total expenses.

Otsego District Public Library
Management's Discussion and Analysis
December 31, 2007

The Library's Fund

An analysis of the Library's major funds is included on pages 4-3 and 4-5, in the first column. The fund column provides detailed information about the most significant funds – not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities such as the Library's current capital campaign and 2007 Library Bond fund, now listed together as "Capital Projects Fund."

The fund balance of the General Fund decreased during 2007 to \$367,002 due to funds being transferred that had been designated for the property investment and the debt fund. The capital projects fund increased to \$4,247,156 in 2007.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. These budget amendments occurred in various accounts, but were not significant.

Capital Assets Administration

Capital Assets

At December 31, 2007, the Library had \$785,280 invested in capital assets, including land, buildings, and furniture and equipment in accordance with its capitalization policy. Amounts under \$1,000 are not included herein.

	<u>2007</u>
Assets not being depreciated – Land	\$ 229,735
Building and building improvements	396,405
Construction in progress	66,184
Equipment and furniture	92,973
Library books	<u>582,119</u>
Total capital assets	1,367,416
Less accumulated depreciation	<u>(582,136)</u>
Net capital assets	\$ <u>785,280</u>

**Otsego District Public Library
Management's Discussion and Analysis
December 31, 2007**

Next Year's Millage Rate

In August 2008, the Library Board will consider the millage rate to be levied for Winter 2008 (these revenues will be received and recorded in fiscal year 2009). The 2007 operating millage rate is .9888 mills per thousand dollars of taxable value. The 2007 debt millage rate is .5700 mills per thousand dollars of taxable value.

Contacting the Library's Financial Management

This financial report is designed to provide the Library's citizens, taxpayers, customers, investors, and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Library at 219 South Farmer Street, Otsego, MI 49078.

Otsego District Public Library
Statement of Net Assets
December 31, 2007

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash	\$ 442,970
Investments	4,318,990
Due from other governments	3,554
Pledges receivable	<u>117,891</u>
Total current assets	<u>4,883,405</u>
Noncurrent assets	
Capital assets	
Land	229,735
Building and improvements	396,405
Construction in progress	66,184
Equipment and furniture	92,973
Library books	582,119
Less: accumulated depreciation	<u>(582,136)</u>
Total noncurrent assets	<u>785,280</u>
Total assets	<u>\$ 5,668,685</u>

Otsego District Public Library
Statement of Net Assets
December 31, 2007

	<u>Governmental Activities</u>
Liabilities	
Current liabilities	
Salaries and benefits payable	\$ 5,306
Accrued interest	28,611
Accrued liabilities	5,904
Deferred revenue	<u>142,875</u>
Noncurrent liabilities	
Bonds payable- short term	50,000
Bonds payable- long term	<u>3,580,000</u>
 Total liabilities	 <u>3,812,696</u>
 Net Assets	
Invested in capital assets	(2,873,331)
Restricted for:	
Capital projects	4,365,047
Debt fund	3,175
Unrestricted	<u>361,098</u>
 Total net assets	 <u>\$ 1,855,989</u>

Otsego District Public Library
Statement of Activities
For the Year Ended December 31, 2007

Revenue

Property taxes	\$ 376,416
State aid	10,763
Penal fines	65,836
Interest on investments	67,448
Contributions and donations	95,357
Library fines and fees	19,111
Other miscellaneous	4,624
Total revenue	<u>639,555</u>

Expenses

Advertising	17,985
Conferences, workshops, and travel	1,507
Co-op expense	2,351
Insurance	7,251
Library books and materials	28,533
Miscellaneous	25,086
Professional fees	10,519
Repair and maintenance	9,516
Salaries and fringe benefits	221,246
Supplies	11,187
Technology	21,863
Utilities	19,336
Interest expense	28,611
Depreciation	55,547
Total expenditures	<u>460,538</u>

Change in net assets	179,017
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Net assets - beginning of year	<u>1,676,972</u>
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Net assets - end of year	<u>\$ 1,855,989</u>
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Otsego District Public Library
Balance Sheet - Governmental Funds
December 31, 2007

	General Fund	Capital Projects Fund	Debt Fund	Total Governmental Funds
Assets				
Cash	\$ 263,707	\$ 123,840	\$ 55,423	\$ 442,970
Investments	194,661	4,124,329	-	4,318,990
Due from other governments	3,554	-	-	3,554
Due from other funds	1,013	-	-	1,013
Total assets	<u>\$ 462,935</u>	<u>\$ 4,248,169</u>	<u>\$ 55,423</u>	<u>\$ 4,766,527</u>
Liabilities and Fund Balance				
Liabilities				
Salaries and benefits payable	\$ 5,306	\$ -	\$ -	\$ 5,306
Deferred revenues	90,627	-	52,248	142,875
Due to other funds	-	1,013	-	1,013
Total liabilities	<u>95,933</u>	<u>1,013</u>	<u>52,248</u>	<u>149,194</u>
Fund Balance				
Reserved for capital projects	-	4,247,156	-	4,247,156
Reserved for debt fund	-	-	3,175	3,175
Designated for capital improvements	28,252	-	-	28,252
Designated for property investments	233,974	-	-	233,974
Designated for memorial and donations	3,473	-	-	3,473
Undesignated	101,303	-	-	101,303
Total fund balance	<u>367,002</u>	<u>4,247,156</u>	<u>3,175</u>	<u>4,617,333</u>
Total liabilities and fund balance	<u>\$ 462,935</u>	<u>\$ 4,248,169</u>	<u>\$ 55,423</u>	<u>\$ 4,766,527</u>

See Accompanying Notes to Financial Statements

Otsego District Public Library
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets
December 31, 2007

Total fund balances for governmental funds **\$ 4,617,333**

Total net assets reported for governmental activities in the statement of net assets is different because:

Pledges receivable - net of discount, unavailable at December 31, 2007
for governmental fund purposes 117,891

Capital assets used in governmental activities are not financial resources and therefore
are not reported in the funds. Those assets consist of:

Land	\$ 229,735	
Buildings and improvements	396,405	
Construction in progress	66,184	
Equipment and furniture	92,973	
Library books	582,119	
Less: accumulated depreciation	<u>(582,136)</u>	785,280

Certain liabilities are not due and payable in the current period and are not reported in the funds.

Accrued interest	(28,611)
Accrued vacation	(5,904)
Bonds payable	<u>(3,630,000)</u>

Net assets of governmental activities **\$ 1,855,989**

Otsego District Public Library
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2007

	General Fund	Capital Projects	Debt Fund	Total Governmental Funds
Revenues				
Property taxes	\$ 376,416	\$ -	\$ -	\$ 376,416
State aid	10,763	-	-	10,763
Penal fines	65,836	-	-	65,836
Interest on investments	28,646	38,802	-	67,448
Contributions and donations	6,820	45,313	-	52,133
Library fines and fees	19,111	-	-	19,111
Other miscellaneous	4,624	-	-	4,624
Total revenues	<u>512,216</u>	<u>84,115</u>	<u>-</u>	<u>596,331</u>
Expenditures				
Advertising	17,985	-	-	17,985
Capital outlay	47,653	14,044	-	61,697
Conferences, workshops, and travel	1,507	-	-	1,507
Co-op expense	2,351	-	-	2,351
Insurance	7,251	-	-	7,251
Library books and materials	28,533	-	-	28,533
Miscellaneous	25,086	-	-	25,086
Professional fees	10,519	-	-	10,519
Repair and maintenance	9,516	-	-	9,516
Salaries and fringe benefits	221,706	-	-	221,706
Supplies	9,532	1,655	-	11,187
Technology	21,863	-	-	21,863
Utilities	19,336	-	-	19,336
Total expenditures	<u>\$ 422,838</u>	<u>\$ 15,699</u>	<u>\$ -</u>	<u>\$ 438,537</u>

See Accompanying Notes to Financial Statements

Otsego District Public Library
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2007

	General Fund	Capital Projects	Debt Fund	Total Governmental Funds
Excess of revenues over expenditures	\$ 89,378	\$ 68,416	\$ -	\$ 157,794
Other financing sources (uses)				
Bond proceeds	-	3,657,689	-	3,657,689
Bond issuance costs	-	(79,829)	-	(79,829)
Transfer in	11,562	535,397	3,175	550,134
Transfer out	(538,572)	(11,562)	-	(550,134)
Total other financing sources (uses)	(527,010)	4,101,695	3,175	3,577,860
Net change in fund balance	(437,632)	4,170,111	3,175	3,735,654
Fund balance - beginning of year	804,634	77,045	-	881,679
Fund balance - ending	<u>\$ 367,002</u>	<u>\$ 4,247,156</u>	<u>\$ 3,175</u>	<u>\$ 4,617,333</u>

Otsego District Public Library
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2007

Net change in fund balances - total governmental funds **\$ 3,735,654**

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 113,837	
Depreciation expense	<u>(55,547)</u>	58,290

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds

Pledges receivable		43,224
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Expenses are recorded when incurred in the statement of activities.

Accrued interest	\$ (28,611)	
Decrease in accrued vacation	<u>460</u>	(28,151)

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance.

Bond proceeds		<u>(3,630,000)</u>
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Change in net assets of governmental activities		\$ <u>179,017</u>
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Otsego District Public Library
Notes to Financial Statements
December 31, 2007

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

The accounting policies of Otsego District Public Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Library's significant accounting policies.

Reporting Entity

The Library is located in the City of Otsego, Michigan and is governed by an appointed six-member board. The Library is primarily funded through a tax levy, fines and fees, and charitable donations. Revenue is used to operate and staff the Library. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the

year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts (1) invested in capital assets, net of related debt (2) restricted net assets, and (3) unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related

Otsego District Public Library
Notes to Financial Statements
December 31, 2007

to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and penal fines associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

The *Capital Projects Fund* is used to account for resources for the acquisition or construction of capital facilities or equipment by the Library.

The *Debt Fund* is used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures related to the bond issued in 2007 to finance planned construction and improvements.

Financial Statement Amounts

Bank Deposits and Investments – The Library has defined cash to include cash on hand, demand deposits and short-term investments with maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Capital Assets – Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated assets are reported at an estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20 – 50 years
Furniture and equipment	5 – 10 years
Improvements	10 – 20 years

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

Comparative Data

Comparative data is not included in the Library's financial statements.

Otsego District Public Library
Notes to Financial Statements
December 31, 2007

Note 2 - Stewardship, Compliance, Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The appropriation level adopted by the Board is the level of control authorized under the Act. State law requires the Library to have its budget in place by November 1. A library is not considered in violation of the Act if reasonable procedures are in use by the library to detect violations.

Budgeted amounts are as originally adopted, or as amended by the Library Board throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Appropriations lapse at year end and therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

Note 3 - Deposits and Investments

The Library's deposits and investments were reported in the basic financial statements in the following categories:

Cash	\$ 442,970
Investments	<u>4,318,990</u>
Total	<u>\$ 4,761,960</u>

The breakdown between deposits and investments for the Library is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 442,970
Investments in securities, mutual funds and similar vehicles	<u>4,318,990</u>
Total	<u>\$ 4,761,960</u>

Interest rate risk – The Library does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorize the Library to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Library is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Library has no investment policy that would further limit its investment choices.

Concentration of credit risk – The District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of yearend, \$172,859 of the District's bank balance of \$429,614 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Otsego District Public Library
Notes to Financial Statements
December 31, 2007

Note 4 - Unconditional Promises To Give

During the year ended December 31, 2004, Otsego District Public Library began a capital campaign and received pledges for the construction of a new library. The amount of pledges outstanding at December 31, 2007 is \$117,891.

Note 5 - Capital Assets

A summary of the changes in capital assets is as follows:

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
Assets not being depreciated				
Land	\$ 229,735	\$ -	\$ -	\$ 229,735
Construction in progress	-	66,184	-	66,184
Total assets not being depreciated	229,735	66,184	-	295,919
Assets being depreciated				
Buildings and improvements	396,405	-	-	396,405
Furniture and equipment	83,839	9,334	-	92,973
Library books	543,800	38,319	-	582,119
Total assets being depreciated	1,023,844	47,653	-	1,071,497
Less accumulated depreciation for				
Buildings and improvements	30,022	8,598	-	38,620
Furniture and equipment	42,797	11,307	-	54,104
Library books	453,770	35,642	-	489,412
Total accumulated depreciation	526,589	55,547	-	582,136
Net capital assets being depreciated	497,255	(7,894)	-	489,361
Net capital assets	\$ 726,990	\$ 58,290	\$ -	\$ 785,280

Depreciation for the year ended December 31, 2007 amounted to \$55,547.

Otsego District Public Library
Notes to Financial Statements
December 31, 2007

Note 6 - Interfund Receivables, Payables and Transfers

Individual interfund receivables, payables and transfers at December 31, 2007 were:

Fund	Receivable	Payable	Purpose
General Fund	\$ 1,013	\$ -	Reimbursement for capital campaign expenditures
Capital Projects Fund	-	1,013	Reimbursement for capital campaign expenditures paid by General Fund
	<u>\$ 1,013</u>	<u>\$ 1,013</u>	

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers were made during the year from the General Fund to the Capital Projects and Debt Funds in the amount of \$535,397 and \$3,175, respectively and from the Capital Projects Fund to the General Fund of \$11,562. These transfers were made to repay expenses incurred by one fund but paid by another fund.

Note 7 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
Unearned property taxes	<u>\$ 142,875</u>

Note 8 - Long-Term Debt

The library received a 20-year bond to finance the construction of the new library facilities of \$3,630,000 from the Harris Bank N.A. with an average interest rate of 4.11%. Payments begin May 1, 2008 and are due every six months.

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ -	\$ 3,630,000	\$ -	\$ 3,630,000	\$ 50,000

Future principal and interest requirements for bonded debt are as follows:

Year Ending December 31,	Principal	Interest	Total
2008	\$ 50,000	\$ 158,406	\$ 208,406
2009	85,000	143,444	228,444
2010	100,000	139,744	239,744
2011	120,000	135,344	255,344
2012	130,000	130,344	260,344
2013-2017	790,000	563,119	1,353,119
2018-2022	1,030,000	381,975	1,411,975
2023-2027	<u>1,325,000</u>	<u>142,003</u>	<u>1,467,003</u>
Total	<u>\$ 3,630,000</u>	<u>\$ 1,794,378</u>	<u>\$ 5,424,378</u>

Otsego District Public Library
Notes to Financial Statements
December 31, 2007

Note 9 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees.

The Library has purchased commercial insurance for the protection of real and personal property. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

Note 10 - Retirement Plan

Plan Description

The Library has instituted a defined contribution pension plan through the City of Otsego for all full-time employees with six months of service. The pension plan provides for various elections as to the retirement benefit determination. Benefits are vested after two years of credited service. Normal retirement is age 65, with early retirement privileges commencing at age 55. There is no mandatory retirement age.

The Library's covered payroll and its total current payroll for all employees amounted to \$89,125 and \$173,309 respectively in the year ended December 31, 2007.

Contributions Required and Made

Covered employees of the Library are provided a contribution of ten percent. For the year ended December 31, 2007 the Library forwarded to the City of Otsego \$8,912.

Funding Policy and Status

The Library funds the plan monthly and as of December 31, 2007 no unfunded past service costs existed.

Note 11 - Fund Equity

Specific reservations on fund equity include:

Reserved for capital projects – This reserve was created to restrict the use of all resources earned by the Capital Projects Fund. This money is earmarked for major capital purchases.

Specific designations include the following:

Designated for capital improvements – This designation was created to indicate funds set aside to cover capital improvements.

Designated for property investments – This designation was created to indicate funds set aside for major real property purchases and expenses associated with the purchase of real property.

Designated for memorials and donations – This designation was created to indicate funds set aside for memorials and donations that are donor-restricted.

Note 12 - Assets Held By Allegan County Community Foundation

During 1999, the Otsego District Public Library Irene Galloway Fund was established at the Allegan County Community Foundation. This is an endowment fund and the principal is not expendable. Net income from the fund is reinvested as spendable income. As of December 31, 2007 the fund had a balance of \$6,978 and there were no funds in the spendable fund.

Otsego District Public Library
Required Supplemental Information
Budgetary Comparison Schedule
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Property taxes	\$ 369,200	\$ 369,200	\$ 376,416	\$ 7,216
State aid	10,600	10,600	10,763	163
Penal fines	60,000	60,000	65,836	5,836
Interest on investments	18,000	18,000	28,646	10,646
Contributions and donations	-	-	6,820	6,820
Library fines and fees	5,200	5,200	19,111	13,911
Other miscellaneous	5,500	5,500	4,624	(876)
Total revenues	<u>468,500</u>	<u>468,500</u>	<u>512,216</u>	<u>43,716</u>
Expenditures				
Advertising	13,000	17,362	17,985	623
Conferences, workshops, and travel	2,200	2,200	1,507	(693)
Co-op expense	3,300	3,300	2,351	(949)
Insurance	6,500	6,643	7,251	608
Library books and materials	25,831	27,650	28,533	883
Miscellaneous	21,600	25,035	25,086	51
Professional fees	16,500	16,500	10,519	(5,981)
Repair and maintenance	10,650	10,650	9,516	(1,134)
Salaries and fringe benefits	228,900	231,700	221,706	(9,994)
Supplies	9,500	10,237	9,532	(705)
Technology	21,000	22,269	21,863	(406)
Utilities	-	23,900	19,336	(4,564)
Capital outlay	47,300	47,497	47,653	156
Total expenditures	<u>406,281</u>	<u>444,943</u>	<u>422,838</u>	<u>(22,105)</u>
Excess (deficiency) of revenues over expenditures	62,219	23,557	89,378	65,821
Net effects of transfers between funds	-	-	(527,010)	(527,010)
Fund balance - beginning	804,634	804,634	804,634	-
Fund balance - ending	<u>\$ 866,853</u>	<u>\$ 828,191</u>	<u>\$ 367,002</u>	<u>\$ (461,189)</u>



April 17, 2008

Management and the Board of Directors
Otsego District Public Library
219 South Farmer Street
Otsego, MI 49078

We have completed our audit of the financial statements of Otsego District Public Library as of and for the year ended December 31, 2007 and have issued our report dated April 17, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

- I Communication of Internal Control Matters Identified During the Audit
- II Auditor's Communication of Significant Matters with Those Charged with Governance
- III Management Comments

We discussed these matters with various personnel in the organization during the audit and have already met with management on April 17, 2008. We can discuss these items with you in more detail at the Board meeting when we present the financial statements, if you so desire.

These communications are intended solely for the information and use of management, the Stockholders, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Kalamazoo, Michigan

Appendix 1

Communication of Internal Control Matters Identified During an Audit

In planning and performing our audit of the financial statements of Otsego District Public Library as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Otsego District Public Library internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

Audit Adjustments Required - As part of the audit, we discovered certain adjusting journal entries were necessary in order for the financial statements to be in agreement with the detail records and supporting documentation of the Organization. As defined above, your internal controls should be designed to prevent and detect misstatements on a timely basis. Since the adjusting entries were proposed by us and are considered material in relation to total financial statement, there is a significant deficiency in internal control.

Financial Statement Preparation Controls - In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Organization's financial statements. However, if at any point in the audit we as auditors are part of the Organization's control system for producing reliable financial statements, auditing standards indicate that the Organization has a control deficiency. The preparation of financial statements and disclosures, even from information provided by Management, meets this definition and is, therefore, a control deficiency. We recommend that Management and those charged with governance evaluate and document their informed decision on the costs and benefits of contracting for this service with our firm.

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our discussion with you related to planning matters on January 25, 2008.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected. The most sensitive accounting estimates and how they were derived by management are: pledges receivable. The value is determined by the amount of pledges that are expected to be collected within the year.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

No significant difficulties were encountered during the performance of our audit procedures.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all but the adjustment in the attached schedule.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Appendix 3 Management Comments

In planning and performing our audit of the financial statements of Otsego District Public Library as of and for the year ended December 31, 2007, we considered Otsego District Public Library's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report date April 17, 2008, on the financial statements of Otsego District Public Library. Our comments and recommendations regarding those matters are:

QuickBooks Accounting Software

As noted previously the Company uses QuickBooks for its accounting software. In many cases QuickBooks is the best option for a Company's accounting software and there are very good business reasons to use QuickBooks. It is however important that Management and those charged with governance understand the inherent limitations of the QuickBooks accounting software package. The software allows modifications without a supporting audit trail to prior and current periods. It also does not allow for segregation of duties. Proper use of passwords and restrictions does help limit this exposure.

We recommend that you seriously consider the costs and benefits of QuickBooks software as compared to the Company's needs. We also recommend that this consideration be done on an annual basis as facts and circumstances change throughout the year. The accounting software which is appropriate for a start-up entity may not continue to be appropriate for that same entity as it grows. We are neither recommending for nor against continuing to use QuickBooks as the Company's accounting software, we are simply recommending that the decision made by Management and those charged with governance be a fully informed decision.

New Funds

The issuance of the bond proceeds has resulted in the creation of two new funds. The Capital Projects Fund and the Debt Retirement Fund. Activity for the various funds must be accounted for completely within each fund separately. As you have one QuickBooks file it is easy to cross various funds when posting activity. Maintaining a summary of the accounts within each fund to ensure entries stay within one fund will assist in assuring entries do not cross funds. We can assist you in creating this summary if necessary.